# Weekly Review

A late sell-off on Friday, particularly in silver, brought gold and silver prices to largely unchanged at week's end. Obviously, the silver/gold ratio also remained unchanged for the week at 63 to 1.  Perhaps I am imagining things, but the late sell-off seemed to coincide with the release of the weekly Commitments of Traders Report (COT) at 3:30 PM Eastern time. This was very unusual to me.

Having closely studied the COT reports for decades, this was absolutely the first time I believe I have observed an apparent connection between the report's release and price action in the narrow window of time remaining in the trading day. Why I'm raising this issue is that for years on end, whenever a particularly bullish or bearish report was issued, I would observe subsequent price action for market reaction. Invariably, I would walk away amazed that there was never an immediate price reaction; although just as invariably, there would be a longer term price reaction to the report over the next few days, weeks or months.

The only plausible conclusion I could reach for the continuous lack of a price reaction to an extreme COT report was that not many followed the reports or placed much importance in them. As you know, I have been observing recently that the ranks of those who follow and write about the COT reports has swelled. This is as it should be to my mind given what the reports represent, namely, a running mechanical explanation for how and why silver (and gold, copper, etc.) prices move.

My observation (imagination) of a price connection to the report this week would seem to support my contention that the COTs are being considered more widely than ever, given the extreme (but expected) nature of this week's report. More on this in a moment.

The physical turnover or movement of metal into and out from the COMEX silver warehouses abated slightly from last week's torrid pace, but the nearly 4 million oz moved equates to an astounding 200 million oz on an annualized basis. Total COMEX silver inventories rose 1 million oz to 175.5 million oz, still basically unchanged year to date. No other commodity, to my knowledge, has ever experienced the "churn" that COMEX silver inventories have displayed over the past three years.

I find it incredible that so few commentators have even mentioned the documented physical COMEX silver turnover given how unusual and unprecedented it is. It's almost as if these commentators have “blinders” on to avoid a circumstance that cries out for explanation. OK, I admit it – I'm just trying to rustle up an alternative explanation to the only plausible explanation I can come up with – the unprecedented turnover is a symptom of extreme physical tightness. Next, I suppose, I may resort to running a contest with an award or standing on a street corner with a poster, “will work for an explanation.”

The curious case of silver not being deposited into the big silver ETF, SLV, on the recent high volume price rally and, instead, being withdrawn has continued this week. Where my back of the envelope calculations suggested close to 7 million oz of metal should be coming into the trust, instead a like quantity has departed. This is in the same league as the continuous COMEX silver warehouse turnover, namely, as an indication of physical tightness in the wholesale silver market and just as ignored by most metals commentators.

Because metal has not been deposited into SLV when it most likely should have been, the question of a likely increase in the short position of SLV has been raised. Ed Steer, writing for Casey Research, has written about the short

position in SLV on a couple of occasions this week, including asking me to answer questions from one of his readers that I won't spell out here but instead ask you to retrieve from the archives of his daily missive.
http://www.caseyresearch.com/gsd

But I would like to comment further on the short position in SLV, because I am very sensitive to the role of SLV in the world of silver. After all, it is, by far, the largest known stockpile of silver bullion in the world. On two prior occasions, in 2008 and in early 2011, as the price of silver reached then record highs of $20 and $49 respectively, the short position in SLV ballooned to record highs of 50 million oz and 36 million oz, also respectively. You can check the archives for what happened in 2011 (click view all) and here is a link to a reference in 2008
http://www.investmentrarities.com/ted_butler_comentary/06-16-08.html

The reason I'm sensitive to the short position in SLV is that I believe that on those prior two occasions the price of silver was high because of physical tightness and that short selling in SLV ballooned because the short sellers couldn't or wouldn't buy the physical silver without sending prices truly soaring. So instead they shorted shares of SLV to escape the requirement of depositing metal as is required by the prospectus. Then, after JPMorgan and other commercial crooks on the crooked COMEX succeeded in manipulating the price of silver sharply lower, a deluge of liquidation in SLV allowed the excessive short position to be greatly reduced and covered. This prevented the growing physical tightness from developing into a full blown physical shortage.

Please understand that the most recent short reading in SLV, as of June 13, was on the "low" side, so my concern about the short position is strictly prospective. The lack of deposits during the current short reporting period ending Monday June 30 should be reflected in the next short report due July 10. In a sense, I am being preemptive in writing about it beforehand. It's hard for me to imagine how the short position in SLV won't increase, particularly after what transpired on the COMEX in the latest COT report.

But there is one thing that could make me fall on my face in handicapping the next SLV short report. Whereas I've grown more confident in the reliability of the data in the COTs, both due to the actual methodology of how the report is derived and a steady series of fairly accurate predictions of what new reports may indicate, the methodology of the short stock reports is much more suspect. Short data on securities come from the Depository Trust Clearing Corporation, an institution of which I am most distrustful. If there is a bigger, more powerful and more secretive financial institution than the DTCC, then I am unaware of it. Where total world stock and bond market and government financial activities stretch into the tens and even hundreds of trillions of dollars, the DTCC handles more than a quadrillion (1000 trillion).

Every fortnight, a single number for the amount of shares held short in every stock is issued by the DTCC. I'm not sure whether the number is written on a blank piece of paper, unsigned and slipped under a locked door, but that is the precise image in my mind. Therefore, I am uneasy in making predictions based upon the circumstances of the report's provider. Knowing that the DTCC appears to be a confederation of big bankers, including JPMorgan, makes me more leary. Do yourself a favor, try to figure out who the heck these guys are. I do know enough about them that they actually scare me. http://dtcc.com/

One financial organization that I'm much more confident in is the sponsor of SLV, BlackRock. (Yes, I'm aware of yesterday's unrelated Wells Notice to the firm from the SEC). I have a very high regard for BlackRock from what I know of it, including hearing from their lawyers on the last go-around over the short position in SLV a couple of years back. When you challenge an honest organization, they should respond (unlike the CME and JPMorgan). This may surprise you, but I believe the world's largest money manager, with assets under management of more than $4 trillion, is strictly on the up and up and one the few good guys in the financial universe.

Should the SLV short position grow sharply enough, I will petition BlackRock again and I do believe their reputation may aid in the petition. The fact that the assets in SLV make up less than two-tenths of one percent of BlackRock's total assets makes it seem an advantage to me that BlackRock would not tolerate a threat to its reputation of potential scandal of a manipulative and fraudulent short position in SLV. That is, assuming the DTCC reports the short position accurately.

One last word about SLV. I know that many wouldn't touch the SLV with a ten foot pole because of the short position and other factors, but that still doesn't include me. As I have disclosed previously, my wife and family continue to hold the security and I have not changed my perspective on it. I promised I would promptly inform you if I ever changed my mind and that promise is still good. I don't give specific investment advice and whether you hold SLV or not is of no concern to me, financial or otherwise.

Ironically, if a very large short position were to develop in SLV in the future, the real threat is to the price of silver itself and not just to SLV holders. Further, I find the stories of re-hypothecation or the leasing of SLV metal holdings to be just that  stories. While I can't personally guarantee the soundness of SLV, nor would I want to, I can point out that despite unfounded alarms of its pending demise, the trust has performed as advertised for every day of its eight year existence. In fact, if it weren't for the short position, it would be close to being the perfect investment, in my opinion.

Sales of Silver Eagles continue to behave as if the big buyer I previously speculated about has stepped away. Unless a very large number of Silver Eagles are reported sold on Monday, June should go down as the lowest month of sales this year. This is somewhat ironic as retail sales have picked up on the rally this month, but more supportive of the big buyer stepping away. While the year to date ratio of Silver Eagles to Gold Eagles has begun to narrow sharply (as expected), at still more that 90 to 1, it is the largest such ratio in history. http://www.usmint.gov/about_the_mint/index.cfm?action=PreciousMetals&type=bullion

I wasn't joking when I said I hoped I would be wrong about this week's COT report, as the report was every bit as ugly as feared. What made it particularly ugly was that it was not only expected, but also provided clear proof of how prices are manipulated on the COMEX. For all practical purposes, this was the largest one week increase of the commercial net short position in COMEX silver and gold futures in history. During the reporting week ended Tuesday June 24, gold advanced by more than $50, including the $40 price spike on Thursday June 19. Silver climbed as much as $1.40, including a near $1 move on June 19.

In COMEX gold futures, the headline commercial total net short position increased by a stunning 53,300 contracts, to 131,600 contracts. This is the second largest total commercial short position since April of 2013 (before the infamous April smack down of that year).

By commercial category, the eight largest shorts "only" added 7500 new short contracts, or 14% of the commercial net gold contracts sold.  That left the smaller gold commercials, aka the raptors, as the big sellers of nearly 46,000 contracts, or 86% of all commercial contracts sold. JPMorgan, classified as a raptor, sold 4000 of its long gold position, reducing that position to 30,000 contracts.

Since the gold raptors accounted for a disproportionate share of the total commercial selling and there are many more smaller commercial traders than the eight largest commercial shorts, I would suggest that such trading had to be coordinated in advance and executed in a collusive manner (in addition to being predicted in silver).

In all four commercial sub-categories of the disaggregated COT report (for both gold and silver) or the long and short side of the producer merchant and swap dealer categories, every commercial sub-category was a seller. One would think that with such tightly disciplined and uniform commercial selling that a memo had to be circulated the morning of the 19th, outlining the commercial selling plan. In effect, these COMEX commercials crooks have this routine down so pat through years of on the job training that a memo wasn't even necessary – just rig the price above the moving average and the technical funds will buy aggressively. This cuts down on unnecessary collusive commercial communication.

The buyers in gold (and silver) were exclusively the technical funds and smaller non-reporting traders, with the managed money category of mostly registered commodity trading advisors (CTA's) doing the heavy lifting. (I'm tired of saying "as expected", so I'll try to refrain from here on out – if that is possible). The gold technical funds in the managed money category bought more than 46,000 contracts (the same amount the gold commercial raptors sold), fairly evenly split between 25,000 short contracts bought back and 21,000 new long contracts bought. I suppose one could argue that the technical funds are just as collusive as the commercials, but in the technical funds' case, it can't possibly be intentional, whereas in the commercials' case it can't possibly be unintentional.

In COMEX silver futures, the commercial total net short position increased by a whopping 20,100 contracts, to 42,900 contracts the highest since February 2013 (when silver was priced around $32). 20,000 contracts equals 100 million oz of silver, or one full month and a half of total world silver production. Stated differently, in one or possibly two days of COMEX paper trading, the equivalent of a month and a half's worth of world production was sold by the commercials. Here's the punch line  not one oz of the 100 million oz sold involved a single silver miner, only speculators euphemistically called COMEX commercials.

By commercial categories in silver, as was the case in gold, it was mostly a raptor affair, although all four commercial sub-categories were sellers. The raptors accounted for 90% of the net 20,100 commercial contracts sold, or 18,000 contracts, in reducing their net long position by half to 18,300 contracts. The shift in raptor silver holdings on the long side is beyond dramatic.

Three weeks ago June 3, the raptors held their largest net long position ever (50,200 contracts). Now they hold their smallest net long position in a year and a half. Raptor long positions are held by many different commercial traders with no discernable single big holders. Despite being widely held and not on a concentrated basis, the raptor long position decreased more than 63% on the silver rally thru Tuesday. How could that be accomplished without some form of collusion?

Finishing up with the commercials in silver, the big 4 shorts added 1700 new shorts and the 5 thru 8 largest shorts added another 400. This means that the 8 largest shorts in silver accounted for 2100 contracts of the 20,100 commercial contracts sold or 10% of the total. I'd peg JPMorgan at 14,500 net short, up 1500 contracts for the reporting week; enough to call them crooks, but not super crooks this week. More in a moment.

On the speculative buy side in COMEX silver, it was eerily similar to what occurred in gold, in that the technical funds bought more than 18,200 contracts or 91% of the 20,100 non-commercial contracts bought and a bit more than the 18,000 raptor contracts sold. This emphatically underscores that the two narrow categories responsible for price movement in gold and silver are the technical funds and the raptors. This week the technical funds covered 12, 377 short contracts and added almost 5900 new long contracts.

Over the past three weeks (since the COT of June 3) and on the $80 gold and $2.40 silver price rallies, the commercials have sold 68,000 contracts of gold (6.8 million oz) and 33,000 contracts of silver (165 million oz), mostly by the raptors. Almost to the contract, it has been technical fund buying on the other side. There was no larger amount of equivalent metal transacted over this time than what was transacted on the COMEX. How anyone could point to a greater price influence than this escapes me.

One thing that stands out to me is that despite the increase by JPMorgan in its concentrated short position in COMEX silver during this reporting week, from June 3 the bank has not added to silver shorts. I don't recall a previous time when silver rallied more than $2 and the total commercial net short position increased by more than 30,000 contracts where JPMorgan didn't add aggressively to silver shorts. This really has become a raptor-dominated commercial production.

I've already started to read accounts of this week's historic COT report, but have not yet read any public account that digs into the cause and effect nature of the COMEX price control on the price of gold and silver. As far as I'm concerned, nothing else matters; not stories about the economy, world events or about under collateralized loans in China. But with the increasing attention on the COTs, I'm hopeful that those commenting will spend some thought on how this week's historic report came about. Anyone can recount the numbers; the trick is explaining what's behind the numbers and why.

As always is the case, where to from here? Strictly in COT terms, this report stinks. Up until three weeks ago, it was a virtual lock to the upside, both on a short and long term basis. That can no longer be said, at least as it pertains to the short term. In three weeks, there has been a massive rearrangement of the market structure in COMEX gold and silver, as the total commercial net short position doubled in gold and more than tripled in silver.

That doesn't mean we must go down from here, but it also doesn't mean we can't go down. That doesn't mean we can't go up, but the certain set up of technical fund short covering, particularly in silver and including trading since the Tuesday cut-off, is largely played out; although continued technical fund buying of new long contracts on higher prices is possible.

Because nothing would surprise me in the short term, I am trying hard to refrain from suggesting what will occur near term. It's not a cop out; it's simply a declaration of not knowing. Oh, if we go down, then I do know what would cause that, namely, the raptors pulling the price rug out from the technical funds and inducing them to sell. But knowing the reason beforehand why prices may fall is not the same as knowing if we will go down.

The problem is that the short term may have turned problematic as a result of the deterioration, or increase in the